

MARKET STUDY GUIDELINES

FOR HOUSING TAX CREDIT PROGRAM

GENERAL – WHAT EACH APPLICANT MUST SUBMIT

These market guidelines apply to all applicants seeking Housing Tax Credit under California's Low Income Housing Tax Credit program. **However, applicants requesting Tax Credit for fewer than six (6) units are not required to submit a market study. Applicants requesting Tax Credit for between six (6) and twenty (20) units, as well as applicants requesting 4% non-competitive tax credit, must submit the information described in Addendum A, but are not currently required to submit the full market study described below.** The Executive Director may waive the full market study requirement for certain geographic areas when need and demand have been sufficiently established. These areas will be announced prior to each funding cycle. In such cases, applicants will be required to submit the information described in Addendum A, but not a full market study.

FULL MARKET STUDY GUIDELINES

The market study must include **all** of the items listed below and must document sufficient demand in the market area to support the proposed housing. Each study must provide up-to-date demographic information from a clearly identified source. Additionally, each study must also include an **analysis** of such data, identifying assumptions, estimates, and projections, used in the analysis. Recommendations should, of course, be based on market conditions, and not simply build a case for the developer's proposal.

The market study must be completed by an independent professional market consultant, and must include a resume describing the author's experience and background.

I. PROJECT DESCRIPTION

- A. Sponsor's name
- B. Development's Location
- C. Total project units/Total tax credit units
- D. Occupancy Type (family, elderly, special needs, etc.)
- E. New Construction/Rehabilitation
- F. A detailed description of the location, including closest streets, number of acres and map, indicating site configuration and contiguous land use and zoning
- G. Tenant paid utility schedule and source of that schedule
- H. Proposed unit amenities
- I. Proposed development amenities
- J. Locational amenities and their distances from site
- K. For rehabilitation proposals, current occupancy levels, rents being charged, and tenant incomes, if available, as well as detailed information with regard to the scope of work planned (new kitchen counters, for example).

II. DELINEATION OF MARKET AREA

Identify the geographic market area from which potential renters are expected to come and provide a reasonable rationale for the suggested market area, taking into account political and natural boundaries, experience of nearby comparable developments, etc. Provide a map of the suggested market area that identifies the proposed development, the locational amenities, and the comparable rental developments.

III. MARKET AREA ECONOMY

For all proposals except elderly, provide the following:

- A. Employment by industry – numbers and percentages (For example, services – 150,00 (20%).
- B. The major current employers and anticipated expansions, contractions in their workforces, as well as newly planned employers and their impact on employment in the market area.
- C. Unemployment trends for the market area and, where possible, the county – total workforce figures and number and percentage unemployed.

IV. POPULATION AND HOUSEHOLD TRENDS

Provide the following demographic information for **both** the market area and the minor civil division (city, village, township, etc.) in which the proposed project will be located. Projections must be prepared by one of the national proprietary data providers, for example, CACI, Claritas, etc. U.S. Census data is only acceptable as historical data. If the market analyst does not agree with these projections, s/he must provide the reasoning, along with substitute projections. Population and households should be projected to the estimated time of market entry. For elderly proposals, data should be based on households ages 65 years plus. (Although the statutory requirement is younger, for purposes of the market study, TCAC will require use of age 65, since it more typically reflects the move-in age of tenants for elderly developments.)

- A. Population Trends
 - 1. Total Population.
 - 2. Population by age group.
 - 3. Number of elderly and non-elderly
- B. Household Trends
 - 1. Total number of households.
 - 2. Household by tenure; that is, the number of owner and renter households by elderly and non-elderly.
 - 3. Average household size.
 - 4. Renter households by number of persons in the household.

V. HOUSEHOLD INCOME DISTRIBUTION:

Present an estimate of household income by tenure projected to the expected time of the development's market entry. (Elderly proposals should reflect the income distribution of elderly households only.) Make income projections based upon reasonable assumptions, which assumptions must be provided.

VI. DEMAND ESTIMATE:

Use the applicable incomes and rents in the development's tax credit application. The estimated demand must be based upon current households and projected household growth. Assume that market rate households will spend up to 30% of their income for gross rent, and lower income households up to 40% for their gross rent. Demand should be calculated for each proposed rent level and each bedroom size. Income qualified households should not be double counted.

Below is an example of a demand analysis. Reliable local sources are preferable to regional sources. *TCAC staff should be able to reconstruct your estimate of demand – step by step. The percentages used are for example only - market studies must use percentages based upon actual market data or other reliable sources.*

A. Demand From Existing Households:

1.	Number of existing households for current year.	40,000
2.	Number of renters.	x 30% = 12,000
3.	Number of income-qualified renter households.	12,000 x 18% = 2,160
4.	Movership or turnover rate. (Using identified, reliable data sources, estimate the percentage of renter households that move into different rental units in a given year.)	2,160 x 35% = 756
5.	Estimated annual demand from existing rental households.	756

B. Demand from New Households:

1.	Estimate the number of new, additional renter households by the time the project enters the market	200
2.	Estimate the annual growth. This is the number of new households divided by the number of years between the current household number and the market entry number.	$200 \div 2 = 100$
3.	Number of income-qualifier renter households.	$100 \times 18\% = 18$
4.	Estimated annual demand from new households.	18

C. Total annual demand from existing and new renter households: $756 + 18 = 774$

VII. ABSORPTION RATE:

The market study should provide an estimate of the expected absorption rate, including the time required to reach 95% occupancy. The absorption rate determination should consider such factors as the overall estimate of new household growth, the available supply of competitive units, observed trends in absorption of comparable units, and the availability of subsidies and rent specials. (The absorption period is considered to start as soon as the first units are released for occupancy.)

VIII. COMPETITIVE RENTAL MARKET:

The market study must identify what developments are currently available to serve the target market, and provide sufficient information on existing developments to allow a reviewer who is unfamiliar with the area to understand the current market conditions.

At least three (3) comparable rental properties within one mile (or, in the case of rural projects where comparables do not exist within one mile, in the market area) of the subject property should be included in the market analysis. The analysis should include information on all rental developments that can be considered “true comparables” available to serve the target market. This includes those existing developments with comparable financing, developments serving the same market, developments of comparable age, and developments with comparable amenities. The analyst must indicate which developments in the market area s/he determines to be the most directly comparable, and why. Further, a rent comparability must be done, and a demonstration made that the tenant paid rents for each tax credit unit type in the proposed development will be at least 10% below rents for the same unit types in the comparable rental properties.

The following information must be provided for competitive rental developments in the market area.

- A. Name, address, and telephone number of the development.
- B. Age of the development.
- C. Number of units by bedroom size and structure type
- D. Square footage for each comparable unit type. Indicate if square footage is gross or net.
- E. Current contract rent for each comparable unit type. Where possible, provide rent history for past 3 years.
- F. Tenant-paid utilities.
- G. Heat source.
- H. Amenities (both unit and development.)
- I. Vacancy rates, waiting lists, and turnover rates by bedroom size and structure type.

- J. If the proposed development represents an additional phase of an existing housing development, include a tenant profile as well as additional information related to households on a waiting list of the existing phases.
- K. In rural areas lacking sufficient three and four bedroom rental comparables, provide data on three and four bedroom single-family rentals, showing that the tax credit rents will be at least 20% below rents for these single family homes.
- L. Rent comparisons for each unit type in the comparable and the subject development.

For developments in the planning or construction stages, provide the number of units, unit configuration, rent structure, estimated date of market entry, and any other relevant market analysis information. If there are no developments in the planning stages or under construction, a statement to that effect must be provided.

IX. RECOMMENDATIONS/CONCLUSIONS:

The study must include the market analyst's recommendations and conclusions, supported by the data contained in the market study. The analyst should provide an evaluation of the proposed development, given the target population and market conditions. This analysis should include market justification for the proposed development, including the proposed rents by unit and population type, estimated absorption rate, and should further evaluate the proposed unit, development, and locational amenities given the market. Finally, the market study should provide an objective review of past, present, and future demographic and economic trends in the defined market area. Include an estimate of how the proposed development will be integrated into the market area based on existing rental comparables and anticipated pipeline additions to the rental base.

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ADDENDUM A

GENERAL – TO WHOM THIS ADDENDUM APPLIES

This addendum A sets forth the requirements for less than a full market study. These requirements must be met at initial application for the following types of development proposals:

Competitive, 9% applications consisting of between 6 and 20 units

Non-competitive, 4%, tax exempt applications

Competitive, 9% applications where the requirement for a full market study has been waived by the Executive Director

RENT COMPARABLES

Pursuant to Section 10322(h)(10) of the Tax Credit Regulations, either Rent Comparables or a Market Study must be submitted with the initial tax credit application. For those proposed developments mentioned above that are NOT required to submit a full market study, the following must be submitted at initial application:

A detailed description of at least three comparable rental properties within one mile of the subject property with similar market rate units submitted in a format prescribed by the Committee, or in the case of rural projects where comparables do not exist within one mile, the surrounding market area. This description should define the proposed market area and demonstrate that the tenant paid tax credit rents of each unit type within the subject property will be at least ten percent (10%) below the same unit type in each of the three comparable rental properties. Should comparable rental properties of a similar unit mix be unavailable, sufficient rental data shall be obtained to allow comparison of at least three comparable rents for each unit size. Comparable units shall have the same number of bathrooms. Should four-bedroom units be unavailable in the market area, single family residences located within a ½ mile radius may be substituted. The proposed rents of the subject four-bedroom units shall be at least twenty percent (20%) below the three comparable four-bedroom single family homes. This requirement that rents be at least 10% below market rents may be waived in unusual circumstances, such as where the market is primarily comprised of tax credit rentals and need is demonstrated.